



*More Progress Is Needed to Reduce the  
Millions of Dollars Paid in Interest on  
Improperly Frozen Refunds*

**August 18, 2009**

**Reference Number: 2009-30-106**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 18, 2009

**MEMORANDUM FOR** DEPUTY COMMISSIONER FOR SERVICES AND  
ENFORCEMENT

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – More Progress Is Needed to Reduce the  
Millions of Dollars Paid in Interest on Improperly Frozen Refunds  
(Audit # 200930016)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) has made progress in strengthening the controls over taxpayer accounts containing the automatic large dollar refund freeze.<sup>1</sup> This review was part of our Fiscal Year 2009 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments.

*Impact on the Taxpayer*

The IRS issues millions of refunds worth billions of dollars to taxpayers each year through its automated and manual systems. The IRS' inability to promptly resolve some accounts with a large dollar refund freeze can adversely affect taxpayers who may need the refunds to help meet their financial obligations. These delayed actions may also negatively impact the IRS' mission of providing top-quality customer service, in addition to costing the Federal Government millions of dollars in additional interest.

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<sup>1</sup> See Appendix V for a glossary of terms.



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### Synopsis

We reported in September 1999<sup>2</sup> and again in March 2002<sup>3</sup> that the IRS was experiencing problems with the process of freezing large dollar refunds. In those reports, we recommended that computer programming changes be made to periodically alert employees to review accounts with large dollar frozen refunds and systemically release these refunds if the credit amount went below the large dollar refund freeze threshold (currently \$10 million). In addition, we recommended that the IRS create processing procedures and provide training for employees responsible for large dollar frozen refunds.

In this followup review, we found fewer accounts with the large dollar refund freeze. Nevertheless, the amount of interest the IRS continues to owe taxpayers with improperly frozen refunds is substantial because it has yet to implement our recommendations from the prior reviews. Overall, we found 152 taxpayer accounts on the IRS Master Files with the large dollar refund freeze, of which 75 (49 percent) were improperly frozen. The 75 improperly frozen accounts included 49 accounts for which refunds totaling \$620 million were not timely issued and resulted in the Government incurring \$62.9 million in additional interest.

### Recommendations

We recommended the Deputy Commissioner for Services and Enforcement coordinate with the appropriate functional areas and follow through with implementing our prior recommendations to: 1) properly implement computer system modifications to provide alerts to review large dollar frozen taxpayer accounts for credits that can be released and to systemically release the freeze on accounts when credits fall below the large dollar refund freeze threshold; 2) ensure procedures for processing large dollar frozen refunds adequately address common issues that arise and delineate responsibilities of the various functions that are most involved with the processing and monitoring of these taxpayer accounts; and 3) ensure training materials cover the procedures for processing large dollar frozen refunds.

### Response

IRS management agreed with our recommendations. Computer programming requests have been submitted to systemically release the refund freeze when credits fall below the \$10 million threshold and to establish a report of all taxpayer accounts containing a refund freeze that will be

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<sup>2</sup> *Controls Should Be Strengthened Over Business Taxpayer Accounts With Frozen Million Dollar Refunds* (Reference Number 199940057, dated September 27, 1999).

<sup>3</sup> *The Internal Revenue Service Continues to Owe Millions of Dollars in Interest to Taxpayers With Frozen Refunds* (Reference Number 2002-30-062, dated March 12, 2002).



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used to ensure employees review for credits that can be released. In addition, procedures for processing large dollar refunds have been updated. Also, training materials created for and used by the Wage and Investment Division Accounts Management function will be sent to other business organizations responsible for large dollar refunds for use in their upcoming training. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.



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## *Abbreviations*

IRS

Internal Revenue Service

TIGTA

Treasury Inspector General for Tax Administration



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## *Background*

The Internal Revenue Service (IRS) issues millions of refunds worth billions of dollars each year through its automated and manual systems. For example, in Fiscal Year 2008, the IRS issued 121 million refunds totaling \$330 billion.<sup>1</sup> However, if a taxpayer's account has a filed tax return and a credit balance<sup>2</sup> of \$10 million or more, the IRS' computer system places a freeze on the taxpayer's account to prevent it from automatically refunding or offsetting to another liability. This freeze is intended to alert IRS employees that a refund, if appropriate, must be issued manually because the computer system does not allow for the number of digits needed to automatically issue the refund. Also, this freeze situation allows an opportunity for IRS employees to review the account for errors before taking action to resolve the account. Taxpayer accounts with the large dollar refund freeze must be properly processed to avoid paying additional interest to taxpayers and burdening taxpayers by preventing timely access to funds.

In September 1999, we reported that the IRS was experiencing problems releasing large dollar frozen refunds, for which the IRS incurred additional interest expense of \$17.5 million on 44 business taxpayer accounts.<sup>3</sup> Recommendations were made to 1) modify the computer program to provide an option of releasing refunds when business taxpayer account credit balances fall below the large dollar refund freeze threshold, 2) generate periodic followup transcripts for business taxpayer accounts with a large dollar refund freeze, 3) display the large dollar refund freeze on critical IRS computer screens, and 4) enhance procedures to identify and expedite the resolution of a large dollar refund freeze.

In March 2002, we reported the IRS had not implemented our prior recommendations as agreed and instead, in January 2001, increased the threshold for automatically freezing refunds from \$1 million to \$10 million.<sup>4</sup> The threshold increase did not solve the problems, as we identified 209 improperly frozen accounts resulting in the IRS issuing approximately \$185.8 million in delayed refunds to taxpayers and paying them an additional \$15.4 million in interest. Recommendations were again made to 1) modify the computer program to release refunds when business taxpayer account credit balances fall below the large dollar refund freeze threshold, 2) establish indicators on key computer screens and generate periodic alerts for employees to review business taxpayer accounts with a large dollar refund freeze, and 3) provide updated training for employees that manually initiate refunds. IRS management's response was not

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<sup>1</sup> This does not include the 116 million economic stimulus payments totaling \$95 billion in Fiscal Year 2008.

<sup>2</sup> See Appendix V for a glossary of terms.

<sup>3</sup> *Controls Should Be Strengthened Over Business Taxpayer Accounts With Frozen Million Dollar Refunds* (Reference Number 199940057, dated September 27, 1999).

<sup>4</sup> *The Internal Revenue Service Continues to Owe Millions of Dollars in Interest to Taxpayer With Frozen Refunds* (Reference Number 2002-30-062, dated March 12, 2002).



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received before the final report was issued, but the IRS subsequently reported to the Department of the Treasury's Joint Audit Management Enterprise System that it had implemented the corrective actions.

This review was performed in the Large and Mid-Size Business Division, the Small Business/Self-Employed Division, the Tax Exempt and Government Entities Division, and the Wage and Investment Division during the period October 2008 through June 2009. An onsite review was performed at the IRS campus in Ogden, Utah. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

Since our 2002 report, there are fewer taxpayer accounts containing a large dollar refund freeze. However, the percentage of accounts with credits that continue to be improperly frozen remains high, and the interest the IRS will pay on these accounts is substantial.

### ***Although Fewer Accounts Have the Large Dollar Refund Freeze, the Percentage of Improperly Frozen Accounts Remains High***

In 2002, we identified 412 business taxpayer accounts with large dollar refund freezes and found that 209 (51 percent) improperly frozen accounts resulted in the IRS issuing approximately \$185.8 million in delayed refunds to taxpayers and paying them an additional \$15.4 million in interest. In this followup review, we identified 152 taxpayer accounts with large dollar refund freezes, of which 75 (49 percent) were improperly frozen. Those 75 taxpayer accounts (70 businesses and 5 individuals) included 49 taxpayer accounts for which refunds totaling \$620 million were not timely issued, resulting in the Government incurring \$62.9 million in additional interest that could have otherwise been avoided.<sup>5</sup> Although the remaining 26 taxpayers were not due refunds, the large dollar refund freeze will need to be removed so the credits can be properly applied to the accounts. For example, some of the 26 taxpayers have outstanding liabilities from other tax periods in their account that can be satisfied by transferring the credits to offset the amounts owed. As Figure 1 shows, the 75 taxpayer accounts involved multiple IRS functional areas and contained \$1.288 billion of credits that were improperly frozen for an average of 1,154 days.

***Figure 1: Improperly Frozen Taxpayer Accounts at the End of Fiscal Year 2008***

<b>IRS Functional Area</b>	<b>Accounts Improperly Frozen</b>	<b>Credits Improperly Frozen</b>	<b>Average Days Frozen</b>
Submission Processing Function	14	\$348.2 million	2,676
Accounts Management Function	34	\$569.2 million	744
Examination Function	22	\$282.2 million	1,008
Office of Appeals and the Collection Function <sup>6</sup>	5	\$88.7 million	319
<b>ALL FUNCTIONAL AREAS</b>	<b>75</b>	<b>\$1.288 billion</b>	<b>1,154</b>

*Source: Treasury Inspector General for Tax Administration's (TIGTA) review of taxpayer accounts and information from IRS personnel.*

<sup>5</sup> See Appendix IV for details.

<sup>6</sup> This includes collection activity performed at field and campus locations.



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To their credit, IRS officials were already taking steps to release the freezes for 12 of the 49 accounts by issuing refunds to the taxpayers before we brought the improperly frozen accounts to their attention. The officials also initiated actions to release the refunds associated with the remaining 37 accounts once we brought the accounts to their attention. Taking these actions is important because we estimate that if the 37 taxpayer accounts had continued to go undiscovered, an additional \$5.94 million of interest would have been owed to the taxpayers each year, or \$29.7 million over 5 years.<sup>7</sup>

The Government Accountability Office's *Standards for Internal Control in the Federal Government* recommends that managers take prompt action to correct problems identified by auditors. Specifically, Federal managers are to evaluate findings and recommendations reported by auditors, determine the actions to take in response to the findings and recommendations, and complete actions that correct the problems brought to their attention. Although the IRS reported through the Department of the Treasury's Joint Audit Management Enterprise System that it had corrected the problems we had previously reported related to large dollar frozen refunds, we found four areas where the actions taken were either inadequate or not completed.

First, we recommended that periodic notices be generated by IRS computers to alert employees to perform a manual review of large dollar frozen taxpayer accounts for credit amounts that could be released. However, we learned that, during clarification of the work requested by IRS computer programmers, the recommended alert was discontinued at the request of Submission Processing, who thought it duplicated another alert. The other alert is produced only once to address large credits occurring during the initial processing of tax returns and possibly for other situations such as subsequent payments, transfers, or abatements. However, that one-time alert is given to the Submission Processing function, which may overlook the large dollar refund freeze, and may not be effective when the account is controlled by another functional area. If the recommended periodic alert had been implemented, 74 of the 75 taxpayer accounts with an improper large dollar refund freeze would have received at least one alert for manual review and 70 taxpayer accounts would have received at least a second alert.

Second, we recommended another computer programming change to systemically release credits when the taxpayer account went below the \$10 million threshold due to payment transfers or adjustments, so that manual intervention would not be necessary. This change was not included in the work request to the Information Systems function to make the other recommended programming modifications. If the systemic release had been implemented, 36 of the 75 taxpayer accounts with an improper large dollar refund freeze would have been released, but still subject to remaining account freeze conditions.

Third, the IRS developed written procedures for the processing of large dollar frozen refunds as directed by our previous recommendations. However, feedback from the IRS following their review of taxpayer accounts noted that these procedures needed to be enhanced. During our

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<sup>7</sup> See Appendix IV for details.



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review, Accounts Management personnel informed us that they started updating their written procedures and have updated five Internal Revenue Manual sections to help further clarify that a manual refund must be input to release amounts over \$10 million. Also, the three functional areas most involved with the processing and monitoring of the frozen accounts (Submission Processing, Accounts Management, and Examination) had difficulty delineating responsibilities for releasing the large dollar refund freeze. In addition, the Examination function has no specific procedures to address large dollar frozen refunds when establishing or closing audits.

Fourth, following our last review, the IRS proposed adding refresher training and employee alerts in conjunction with the implementation of new procedures. This action was later deemed unnecessary by the IRS due to the low volume of large dollar frozen refunds. However, current training materials for the three functional areas most involved with the processing and monitoring of large dollar frozen refunds do not contain specific information to address these accounts.

We believe it is important to recognize that the number of improperly frozen large dollar refunds is very small when compared to the millions of refunds the IRS successfully processes each year. Nevertheless, this is a long-standing condition that can adversely affect taxpayers and negatively impact the IRS' mission of providing top-quality customer service in addition to costing the Federal Government millions of dollars in additional interest.

## ***Recommendations***

Because several IRS functional areas are involved, we are recommending that the Deputy Commissioner for Services and Enforcement coordinate with the respective functional areas and follow through with implementing the recommendations we made in earlier reports.

**Recommendation 1:** Ensure employees receive periodic computer alerts to review large dollar frozen taxpayer accounts for credits that can be released and that the freeze on accounts is systemically released when credits fall below the \$10 million threshold by implementing agreed-upon computer programming modifications.

**Management's Response:** IRS management agreed with our recommendation. Computer programming requests have been submitted to systemically release the refund freeze when credits fall below the \$10 million threshold and to establish a report of all taxpayer accounts containing a refund freeze that will be used to ensure employees review for credits that can be released.

**Recommendation 2:** Ensure procedures for processing large dollar frozen refunds are available, adequately address common situations, and effectively delineate the responsibilities of the various functions that are most involved with the processing and monitoring of these accounts.



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**Management's Response:** IRS management agreed with our recommendation. All procedures contained in the Internal Revenue Manual sections for processing large dollar refunds have been updated. These revisions contain common situations and include detailed procedures for working and monitoring the taxpayer accounts.

**Recommendation 3:** Ensure the training materials for the functions involved with frozen refund accounts include the procedures for processing large dollar frozen refunds.

**Management's Response:** IRS management agreed with our recommendation. Training materials created for and used by the Wage and Investment Division Accounts Management function will be sent to other business organizations responsible for large dollar refunds for use in their upcoming training. The other business organizations responsible for large dollar frozen refunds will review the training material and use it as determined by the business organization to train their employees working the cases.



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## Appendix I

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether the IRS has made progress in strengthening the controls over taxpayer accounts containing the automatic large dollar refund freeze.<sup>1</sup> To accomplish our objective, we:

- I. Determined if recommendations from the TIGTA's March 2002 report were implemented.<sup>2</sup>
  - A. Reviewed the Department of the Treasury's Joint Audit Management Enterprise System reports to determine the IRS' corrective actions, implementation dates, current status, history of actions, and responsible officials.
  - B. Interviewed employees and reviewed documents (e.g., Request for Information Services, updates to Internal Revenue Manuals, training materials, memoranda, employee alerts) to support the IRS' corrective actions.
  - C. Reviewed Internal Revenue Manuals and training materials for consistency and up-to-date procedures for large dollar frozen refunds.
  - D. Performed a walkthrough at the Ogden Campus to determine what procedures were implemented or in place to expedite the resolution of large dollar frozen refunds.
- II. Determined if current taxpayer accounts are improperly frozen due to the large dollar refund freeze.
  - A. Obtained a computer extract from TIGTA's Data Center Warehouse of all business (144) and individual (8) taxpayer accounts with a large dollar refund freeze as of Master File processing cycle 200839 (the end of Fiscal Year 2008). To ensure data were sufficiently reliable for our review, we scanned field elements for expected values and completeness as well as compared computer information with Master File transcripts used in the next step, below.
  - B. Reviewed Master File transcripts, case control bases on the Integrated Data Retrieval System, and other applicable case-specific information from IRS personnel to determine if the large dollar refund freeze was improper at the time of our computer extract (i.e., no case action or delayed case action for the credits to be refunded, transferred, or adjusted).

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<sup>1</sup> See Appendix V for a glossary of terms.

<sup>2</sup> *The Internal Revenue Service Continues to Owe Millions of Dollars in Interest to Taxpayers With Frozen Refunds* (Reference Number 2002-30-062, dated March 12, 2002).



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- C. Quantified the effect of the accounts improperly frozen due to the large dollar refund freeze. This includes the number of taxpayer accounts affected, additional interest paid to the taxpayers, the amount of credits, and the duration of time for the delay. We confirmed results with designated technical experts and IRS officials.
- D. Interviewed IRS officials responsible for the identified exception taxpayer accounts (those with improper freezes) to determine what missing or ineffective controls over large dollar frozen refunds may have allowed these accounts to go unresolved.



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**Appendix II**

*Major Contributors to This Report*

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)  
Frank Dunleavy, Director  
Robert M. Jenness, Audit Manager  
Aaron R. Foote, Lead Auditor  
Cynthia Dozier, Senior Auditor



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## Appendix III

### *Report Distribution List*

Commissioner C  
Office of the Commissioner Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Assistant Deputy Commissioner for Services and Enforcement SE  
Assistant Deputy Commissioner for Operations Support OS  
Commissioner, Large and Mid-Size Business Division SE:LM  
Commissioner, Small Business/Self-Employed Division SE:S  
Commissioner, Tax Exempt and Government Entities Division SE:T  
Commissioner, Wage and Investment Division SE:W  
Chief, Appeals AP  
Chief Counsel CC  
National Taxpayer Advocate TA  
Chief Technology Officer OS:CTO  
Director, Campus Compliance Services SE:S:CCS  
Director, Customer Account Services SE:W:CAS  
Director, Examination SE:S:E  
Director, Accounts Management SE:W:CAS:AM  
Director, Submission Processing SE:W:CAS:SP  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
Deputy Commissioner for Operations Support OS  
Deputy Commissioner for Services and Enforcement SE  
Commissioner, Large and Mid-Size Business Division SE:LM  
Commissioner, Small Business/Self-Employed Division SE:S  
Commissioner, Tax Exempt and Government Entities Division SE:T  
Commissioner, Wage and Investment Division SE:W  
Chief, Appeals AP  
Chief Technology Officer OS:CTO



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## **Appendix IV**

### *Outcome Measures*

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

#### **Type and Value of Outcome Measure:**

- Cost Savings – Funds Put to Better Use – Actual; \$62.9 million in additional interest expense for the 49 improperly frozen taxpayer accounts that were corrected by issuing a refund during our review (see page 3).

#### **Methodology Used to Measure the Reported Benefit:**

We obtained a computer extract from TIGTA's Data Center Warehouse of all taxpayer accounts with a large dollar refund freeze as of the end of Fiscal Year 2008 (152 accounts with \$5.2 billion in credits). We determined that the IRS improperly prevented the release of \$1.288 billion in credits for 75 taxpayer accounts for an average of 1,154 days. We confirmed our results with IRS officials. During the course of our review, the IRS initiated corrective action for 49 improperly frozen taxpayer accounts by issuing a refund with interest for the total period applicable for the credit. Calculating the elapsed time from the day the refund could have been released to the day the refund was actually released, we determined that the IRS incurred \$62.9 million in additional interest expense for the 49 improperly frozen taxpayer accounts that required a refund.

#### **Type and Value of Outcome Measure:**

- Cost Savings – Funds Put to Better Use – Potential; \$29.7 million in additional interest expense over 5 years for 37 improperly frozen taxpayer accounts with no corrective actions in process when the improper freeze was brought to the attention of IRS officials during this review (see page 3).

#### **Methodology Used to Measure the Reported Benefit:**

Using the outcome measure methodology discussed above, we confirmed with IRS officials that \$62.9 million in additional interest will be paid to 49 taxpayer accounts that were improperly frozen but later corrected by issuing a refund. Of these 49 taxpayer accounts, the IRS did not discover and take action to issue the refund for 37 accounts until after we brought the improper freeze to the attention of IRS officials. If these 37 taxpayer accounts had continued to go



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undiscovered, an additional \$5.94 million of interest would have been owed to the taxpayers each year, or \$29.7 million over 5 years (using the minimal interest rate of 1.5 percent as of April 1, 2009).<sup>1</sup>

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<sup>1</sup> Per Internal Revenue Bulletin 2009-13 (March 30, 2009), the rates of interest for the calendar quarter beginning April 1, 2009, will be 4 percent for overpayments, or 3 percent in the case of a corporation. The rate of interest paid on the portion of a corporate overpayment exceeding \$10,000 will be 1.5 percent.



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## Appendix V

### *Glossary of Terms*

**Accounts Management Function** – Responds to taxpayer inquiries for advice on a variety of tax law and procedural questions, account inquiries and adjustments, and responses to notices that are received via the telephone, correspondence, and email at 25 Account Management sites.

**Campus** – The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

**Collection Function** – Collects delinquent taxes and secures delinquent tax returns.

**Credit Balance** – An amount overpaid or prepaid on a taxpayer account.

**Examination Function** – Applies the tax law through Field and Office Audit examinations.

**Integrated Data Retrieval System** – The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

**Joint Audit Management Enterprise System** – The Department of the Treasury's audit tracking and management control system. It contains all findings, recommendations, and planned corrective actions for TIGTA audit reports.

**Large and Mid-Size Business Division** – One of four primary IRS divisions that serve the tax needs of corporations, subchapter S corporations, and partnerships with assets greater than \$10 million.

**Large Dollar Refund Freeze** – A freeze code on the taxpayer's account (shown as "X-") that is sometimes referred to as the "Million Dollar Refund Freeze," although the current threshold is \$10 million or more. This freeze code prevents the credit from automatically refunding or offsetting to another tax account period.

**Master File** – The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

**Office of Appeals** – The administrative forum for any taxpayer contesting an IRS compliance action.

**Small Business/Self-Employed Division** – One of four primary IRS divisions that serve the tax needs of individual taxpayers with business income and all businesses with assets under \$10 million.



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**Submission Processing** – Processes tax returns, related documents, and payments at seven processing centers—Andover, Atlanta, Austin, Cincinnati, Fresno, Kansas City, and Ogden.

**Tax Exempt and Government Entities Division** – One of four primary IRS divisions that serve the tax needs of employee plans, exempt organizations, and Government entities.

**Wage and Investment Division** – One of four primary IRS divisions that serve the tax needs of individual taxpayers without business income.



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**Appendix VI**

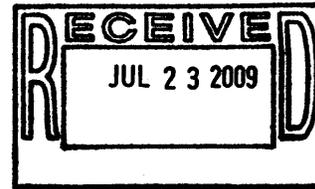
*Management's Response to the Draft Report*



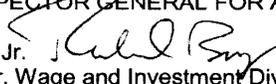
COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

July 22, 2009



MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr.   
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – More Progress Is Needed to Reduce the  
Millions of Dollars Paid in Interest on Improperly Frozen Refunds  
(Audit #200930016)

I reviewed the subject draft report and appreciate your review of taxpayer accounts with improperly frozen large dollar refunds. I also want to thank you for the recognition that we have 64 percent fewer taxpayer accounts with improperly frozen large dollar refunds since your previous audit in 2002 (209 in 2002 versus 76 in 2009).

During this audit, you identified that we were already taking steps to release freezes on 12 taxpayer accounts with improper large dollar refund freezes, and that we took immediate action to release an additional 39 freezes, once they were brought to our attention during the audit.

Even though the number of improperly frozen large dollar refund cases is very small, we agree with the recommendations contained in the report and plan to implement them within the next fiscal year. We have already updated the Internal Revenue Manuals (IRMs) pertaining to large dollar refunds<sup>1</sup>. We have asked the other business organizations responsible for large dollar frozen refund cases (Small Business/Self Employed, Large & Mid-Size Business, and Appeals) to add the updated IRM material to their annual training. In addition, we are sending the other business organizations mentioned above, training materials produced in Wage and Investment, Accounts Management, that contain enhanced procedures for releasing improperly frozen large dollar refunds. They have agreed to provide training to the impacted employees by September 15, 2010.

<sup>1</sup> IRMs 21.4.2; 21.5.2.4.11; 21.5.6.4.38; 21.5.9.5.12; 21.7.9.4.9.4; 3.14.2 and 3.14.1



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Attached are our comments on your specific recommendations. We agree with the cost savings you listed in the outcome measures section in Appendix IV. If you have any questions regarding this response, please call me at (404) 338-7060, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment



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Attachment

Because several IRS functional areas are involved, we are recommending that the Deputy Commissioner for Services and Enforcement coordinate with the respective functional areas and follow through with implementing the recommendations we made in earlier reports.

**RECOMMENDATION 1**

Ensure employees receive periodic computer alerts to review large dollar frozen taxpayer accounts for credits that can be released and that the freeze on accounts is systemically released when credits fall below the \$10 million threshold by implementing agreed-upon computer programming modifications.

**CORRECTIVE ACTION**

We agree with this recommendation. The Unified Work Request (UWR) WSP091663OTH was submitted to modify programming to systemically release the refund freeze when credits fall below the \$10 million dollar threshold. The UWR WSP091961OTH was submitted to establish a report of all accounts containing a refund freeze. This report will be used to ensure employees review large dollar frozen accounts for credits that can be released.

**IMPLEMENTATION DATE**

January 15, 2010 – To modify programming to systemically release the refund freeze

January 15, 2011 – To establish a report of all accounts containing a refund freeze

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system.

**RECOMMENDATION 2**

Ensure procedures for processing large dollar frozen refunds are available, adequately address common situations, and effectively delineate the responsibilities of the various functions that are most involved with the processing and monitoring of these accounts.

**CORRECTIVE ACTION**

We agree with this recommendation. The corrective actions pertaining to this recommendation have been completed. All procedures contained in the Internal Revenue Manuals noted in footnote number 1 for processing large dollar refunds have been updated. These revisions contain common situations and include detailed



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*More Progress Is Needed to Reduce the Millions of Dollars  
Paid in Interest on Improperly Frozen Refunds*

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procedures for working and monitoring the accounts.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 3**

Ensure the training materials for the functions involved with frozen refund accounts include the procedures for processing large dollar frozen refunds.

**CORRECTIVE ACTION**

We agree with this recommendation.

- a. We will forward training materials created for and used by Wage and Investment Division, Accounts Management, to other business organizations responsible for large dollar refunds for use in their upcoming training.
- b. The other business organizations responsible for large dollar frozen refunds will review the training material and utilize it as determined by the business organization to train their employees working the cases.

**IMPLEMENTATION DATE**

- a. December 15, 2009
- b. September 15, 2010

**RESPONSIBLE OFFICIAL**

Director, Customer Account Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system.